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ANNUAL REPORT

OF

MARSHALL FIELD & COMPANY

YEAR ENDED
DECEMBER 31, 1944

CORPORATE OFFICES

The Merchandise Mart
222 North Bank Drive : Chicago 54, Illinois

BOARDS
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A notice of the annual meeting of shareholders, to be held on April 24, 1945, together with a proxy statement and form of proxy will be mailed to shareholders on or about March 24, 1945. Proxies will be solicited by the management.

MARSHALL FIELD & COMPANY

An Illinois Corporation

Founded in 1852 Incorporated in 1901

BOARD OF DIRECTORS

ALBERT B. DICK, JR.
MARSHALL FIELD
STANLEY FIELD
CHARLES Y. FREEMAN
HUGHSTON M. McBAIN
JAMES L. PALMER
WILLIAM B. SIMPSON
ALBERT A. SPRAGUE
JOHN P. WILSON

OFFICERS

President
HUGHSTON M. McBAIN

First Vice President
JAMES L. PALMER

Vice Presidents
CHARLES C. BUNKER
LUTHER H. HODGES
WILLIAM S. STREET

Assistant Secretary and Assistant Treasurer
GERALD A. SIVAGE

Comptroller
JOHN D. ANDERSEN

Assistant Treasurer
LELAND C. CARSTENS

Assistant Secretary
RALPH E. BOWERS

The following officers are on leave of absence with Armed Services:

Secretary and Treasurer
EARL KRIBBEN

Assistant Secretary
MILTON C. MUMFORD

Assistant Secretary
HOWARD M. PACKARD

General Counsel
WILSON & McILVAINE
CHICAGO

Public Accountants
ARTHUR ANDERSEN & CO.
CHICAGO

Transfer Agents
CONTINENTAL ILLINOIS NATIONAL BANK AND TRUST COMPANY OF CHICAGO
CHICAGO
GUARANTY TRUST COMPANY OF NEW YORK
NEW YORK

Registrars
THE FIRST NATIONAL BANK OF CHICAGO
CHICAGO
BANKERS TRUST COMPANY
NEW YORK

TO THE SHAREHOLDERS

The Board of Directors submits this annual report for the year ended December 31, 1944.

Our third full wartime year closely followed the pattern of the two preceding years. The supply of civilian goods dwindled as the year approached its close, and manpower shortages became more acute than ever. Despite these problems, your Company's earnings before taxes exceeded those of 1943 by a substantial margin. Net profit after taxes declined slightly from the 1943 level, due to the heavier impact of Federal income taxes.

In our retail stores we handled more transactions than in any previous year in our history. This increased business was serviced with no increase in the average number of our employes.

We appreciate the loyalty, industry and resourcefulness of our supervisory staff and the many other employes without whose outstanding performance we would have been unable to maintain the standard of service rendered our customers.

Our net profits were as follows:

	1944	1943
Earnings Before Interest and Federal Income Taxes	$20,711,988	$17,873,694
Deduct—		
Interest charges	$ 733,060	$ 791,940
Provision for Federal normal tax and surtax	1,878,579	1,897,934
Provision for Federal excess profits tax	13,090,684	9,967,593
Net Profit	$ 5,009,665	$ 5,216,227
Deduct—		
Provision for possible future decline in market value of inventories, and other contingencies	1,000,000	2,000,000
Balance transferred to earned surplus	$ 4,009,665	$ 3,216,227

Net profit and dividends paid per share of preferred and common stock in each of the last two years were as follows:

	6% Cumulative Preferred (Both Series)		Common	
	Net Profit	Dividends Paid	Net Profit (After Preferred Dividend Requirements)	Dividends Paid
1944	$33.40	$6.00	$2.11	$1.00
1943	34.77	6.00	2.22	1.00

Net sales and rental income for 1944 were $152,167,229 compared with $138,632,315 in 1943, a gain of 10%.

The net profit for 1944 varied only slightly from that of each of the preceding five years. The following table indicates the high degree of stability of our net profit after Federal income taxes and shows the pronounced upward trend in earnings before taxes:

	Earnings before Federal Income Taxes	Federal Income Taxes	Net Profit
1944	$19,979,000	$14,969,000	$ 5,010,000
1943	17,082,000	11,866,000	5,216,000
1942	13,433,000	8,510,000	4,923,000
1941	10,876,000	5,390,000	5,486,000
1940	7,373,000	1,680,000	5,693,000
1939	5,587,000	950,000	4,637,000

In 1944 each major operating unit of the Company (the stores in the Chicago area, Frederick & Nelson in Seattle, the Manufacturing Division, and the Real Estate Division) enjoyed the largest net sales in its history.

Each of our retail stores again experienced an increase in earnings before interest and taxes. There was little change in gross profit margins but expenses increased, due principally to higher wage levels.

For the second consecutive year the Manufacturing Division, which comprises ten textile mills, had slightly lower earnings before interest and taxes than in the preceding year. With but few minor exceptions, Government ceilings on selling prices of our manufactured products prevented the recapture of any portion of increased wage rates and higher material costs.

The provision for renegotiation of Government contracts proved ample in 1943, as it did in 1942. We anticipate no need for such a provision for 1944.

Sales of our Manufacturing Division products to the armed services during 1944 accounted for 25% of total volume compared with 32% in 1943. Unfilled Government orders at present, however, are substantially heavier than they were a year ago, reflecting recent increases in purchases by the armed services.

The Real Estate Division, which includes The Merchandise Mart and the Annex Office Building, again experienced a good year. Occupancy of The Merchandise Mart remained at 98%. The Government now uses approximately 34% of the space in this building compared with 32% a year ago. Your Company's occupancy has dropped from 9% to 7%. We have continued our policy of maintaining this property and all other properties in as excellent physical condition as wartime restrictions permit.

FINANCIAL CONDITION

The year 1944 resulted in a further strengthening of the Company's financial condition. Working capital was increased and we ended the year in a strong cash position.

Further reduction in funded debt was achieved and at the year-end the total of our surplus and reserve accounts was at the highest level in thirteen years.

A reduction in funded debt of $1,800,000 during the year brought the outstanding balance down to $21,300,000 compared with $29,000,000 on December 31, 1939. Total funded debt of $21,300,000 may be compared with $62,300,000 in our capital stock, surplus and reserve accounts. Five years earlier these accounts totaled $29,000,000 and $52,500,000, respectively. Thus, in five years our funded debt has been reduced nearly $8,000,000 while the capital stock, surplus and reserve accounts have increased approximately $10,000,000.

On December 28, 1944, the Company completed the refunding of $10,800,000 of its First Mortgage Twenty-Year Sinking Fund Bond issue and $10,500,000 of its First Mortgage Serial Bond issue. These were all of the bonds then outstanding. By refunding these issues the Company was able to reschedule the maturities and sinking fund requirements and reduce total fixed annual retirements to $900,000, a reduction of approximately $500,000. The Company also was provided with greater latitude in making optional retirements at par. In addition to the $900,000 fixed annual retirement, the Company now has options to retire another $900,000 of bonds annually without premium. It has a second set of options to retire without premium an additional $1,000,000 of bonds annually up to a total of $7,000,000. These prepayment options give the Company an opportunity to retire all outstanding bonds at par within eight years as compared with approximately eleven years under the previous schedule.

In adjusting the bonds of each issue to the reduced fixed annual retirement schedule, the maturity date was extended to 1964, from 1955 and 1959. A slight upward revision was made in the call prices of the two issues. No change in interest rate was effected.

The Company plans shortly to refinance its preferred shares through an exchange offer and public sale. A special meeting of Shareholders has been called for February 26, 1945, to vote on this matter. Approval of the refinancing plan will enable the Company to replace all of its presently outstanding 6% shares with an issue of new preferred shares carrying a lower dividend rate. Annual preferred dividend requirements will be reduced materially. The dividend rate, which is expected to be 4¼%, and in no event in excess of 4½%, and other provisions of the new shares will be fixed by the Board of Directors just prior to their issuance.

Although the new issue which shareholders have been asked to authorize will total 300,000 shares, there is no intention of presently issuing more than the 150,000 shares necessary for the purpose of replacing the presently outstanding 150,000 of 6% Preferred Shares.

On December 31, 1944, our working capital was $26,643,745, an increase of $1,344,922 during the year. The current ratio was 1.9 to 1 compared with 2.0 to 1 a year ago. The slight decrease in ratio was more than accounted for by an increase in the accrual for Federal income taxes. Had we followed the practice of some companies of deducting United States Treasury Tax Savings Notes from the Federal income tax accrual on the liability side of the balance sheet, our current ratio would have been 2.9 to 1 on December 31, 1944, compared with 2.8 to 1 at the end of 1943.

The Company ended the year with another large increase in cash and Government

securities. It held cash, United States Treasury Tax Savings Notes, and other United States Treasury obligations totaling $28,741,844. Against this amount stood a Federal income tax accrual of $17,053,443. Thus, our excess of cash and Government securities over tax accrual was $11,688,401. This compares with an excess of $9,260,474 at the end of 1943. Part of this improvement in net cash position of course is accounted for by the deferment of capital expenditures necessitated by wartime restrictions.

Receivables increased during the year from $11,717,019 to $12,398,788. The reserve for doubtful accounts on December 31, 1944, was in the same ratio to receivables as a year ago and is deemed adequate.

Total inventories at the year-end were $15,477,685, a decline of approximately $1,000,000 from the level of a year ago and approximately $3,000,000 from that of two years ago. Difficulties in obtaining certain kinds of merchandise and our continuing conservative buying policy accounted for this decline.

Our future commitments on December 31, 1944 were $1,569,000 higher than at the end of 1943 because of the continued necessity of placing certain orders farther ahead than usual in our Retail Division.

Earned surplus increased during the year from $8,534,936 to $9,700,838. We added $1,000,000 to our previously established reserve for possible future decline in market value of inventories, and other contingencies. This reserve now totals $6,000,000.

Dividends paid during 1944 totaled $2,843,763, the same amount as in 1943. Of this amount, $900,000 applied to the two series of Preferred Shares, while the balance, $1,943,763, represented dividends totaling $1.00 on each Common Share outstanding.

Expenditures for plant improvements and equipment in 1944 were $712,855 compared with $582,955 in 1943 and $1,515,112 in 1942. Wartime restrictions accounted for the continued low level of these expenditures. Our average annual expenditures for such purposes in the years 1938-1941, inclusive, were $1,566,954.

RETIREMENT PROGRAM

A Retirement Program for our employes was adopted by the Shareholders of the Company at a special meeting on November 15, 1943. The Program was adopted subject to approval by the Commissioner of Internal Revenue.

On November 13, 1944, we were informed by the Commissioner that the Retirement Program would meet the requirements of the Internal Revenue Code if certain amendments were made by the Company. These amendments, all of which are of relatively minor importance, were adopted by the Directors of your Company in a meeting on November 28, 1944. The Retirement Program, therefore, is now fully in effect, and a number of our employes have been retired under its provisions.

In December, 1944, payments approximating in amount those of 1943 were made by the Company towards the cost of the Program.

PERSONNEL

Mr. William B. Simpson has indicated that he will not be a candidate for a directorship of the Company after his present term expires. Mr. James Simpson, Jr. will be nominated

to fill this vacancy at the annual meeting of Shareholders to be held on April 24, 1945. Mr. James Simpson, Jr., who recently received an honorable discharge from the United States Marine Corps, served as a director of the corporation from March 10, 1931, to April 9, 1943.

On March 1, 1944, Mr. Gerald A. Sivage was honorably discharged from the United States Navy and returned to his former position with the Company as Assistant Secretary and Assistant Treasurer. Mr. Robert T. Graham resigned as Assistant Secretary and Assistant Treasurer and resumed his former responsibilities as General Sales Manager of the Manufacturing Division. Mr. Graham was temporarily performing the duties of Secretary and Treasurer in the absence of Lt. Col. Earl Kribben, and Mr. Sivage has succeeded Mr. Graham in that capacity.

On September 28, 1944, Mr. Harold W. Whitcomb was appointed Assistant General Manager of the Manufacturing Division. Mr. Whitcomb has served in various executive positions in the Manufacturing Division during the past nine years.

On July 1, 1944, Mr. Wallace O. Ollman was appointed Assistant General Manager of The Merchandise Mart. He has been connected with the Mart organization for nine years and has served recently as its Comptroller.

GENERAL COMMENTS

Again in 1944 your Company and its employes made every possible contribution to the prosecution of the war. The number of our employes in the armed services at the close of each war year is set forth in the following table:

1944	3,191
1943	2,679
1942	1,776
1941	607

We are justly proud of every one of these men and women. We hope the day is not far distant when most of them will be with us again. We pay high tribute to the forty-six of our men who have given their lives for their country.

The efforts of the Company and its employes in promoting the sale of war bonds have been intensified, and we are more than proud of the record made by the various divisions of the Company.

Our Woolen Mill in Spray, North Carolina, which received the Army and Navy "E" award in 1943, was given its second star in 1944 for continued high achievement in the production of war materiel.

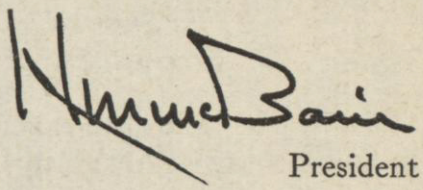
The Company will not have a serious reconversion problem when the end of the war comes. While no one can be sure when this will happen, and although the effect of the end of the war on our economy likewise is uncertain, we are making every effort to prepare the Company for the peace-time years that lie ahead. The plans of all the Company divisions have been carefully drawn and are ready to be executed. We have full confidence in the ability of American industry to supply ample quantities of goods for civilian consumption reasonably soon after hostilities cease. We are hopeful, too, that the

manpower shortage will be so relieved as to permit us to render to our customers an even finer service than obtained before Pearl Harbor.

While the war years have been most trying for the employes in all divisions of the Company they have resourcefully met all of our wartime problems and may be depended upon to do so as long as the war lasts. We have complete faith in the ability of our staff to cope with whatever conditions emerge after the war.

In brief, we look to the years of peace with hope and with confidence.

By order of the Board of Directors,

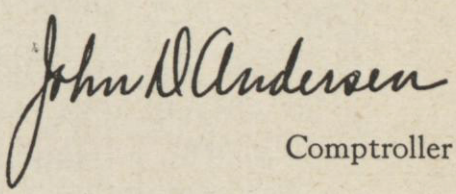


President

February 24, 1945

To the Shareholders of
Marshall Field & Company:

The financial statements contained in this report are correct, to my best knowledge and belief.



Comptroller

February 24, 1945

ARTHUR ANDERSEN & CO.

120 SOUTH LA SALLE STREET
CHICAGO

To the Shareholders of
Marshall Field & Company:

We have examined the balance sheet of MARSHALL FIELD & COMPANY (an Illinois corporation) as of December 31, 1944, and the statements of profit and loss, surplus and reserves for the fiscal year then ended, have reviewed the system of internal control and the accounting procedures of the Company and, without making a detailed audit of the transactions, have examined or tested accounting records of the Company and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and it included all procedures which we considered necessary. We had previously made a similar examination for the year ended December 31, 1943.

In our opinion, the accompanying balance sheet and related statements of profit and loss, surplus and reserves present fairly the position of Marshall Field & Company at December 31, 1944, and the results of its operations for the fiscal year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ARTHUR ANDERSEN & CO.

Chicago, Illinois,
February 14, 1945.

Statement of Profit and Loss

For the Years Ended December 31, 1944 and 1943

	1944	1943
EARNINGS FROM RETAIL AND MANUFACTURING OPERATIONS:		
Net sales to customers	$148,273,338	$134,922,652
Cost of sales and operating expenses	128,543,732	117,859,726
	$ 19,729,606	$ 17,062,926
EARNINGS FROM REAL ESTATE OPERATIONS:		
Rental income from tenants	$ 3,893,891	$ 3,709,663
Operating expenses	2,911,509	2,898,895
	$ 982,382	$ 810,768
Total earnings before interest and Federal income taxes	$ 20,711,988	$ 17,873,694
INTEREST CHARGES ON FUNDED DEBT	733,060	791,940
Total earnings before Federal income taxes	$ 19,978,928	$ 17,081,754
PROVISION FOR FEDERAL INCOME TAXES (SEE FOOTNOTE)		
Normal tax and surtax	$ 1,878,579	$ 1,897,934
Excess profits tax, less postwar credit	13,090,684	9,967,593
	$ 14,969,263	$ 11,865,527
NET PROFIT FOR THE YEAR	$ 5,009,665	$ 5,216,227
DEDUCT: Provision for possible future decline in market value of inventories, and other contingencies	1,000,000	2,000,000
BALANCE TRANSFERRED TO EARNED SURPLUS	$ 4,009,665	$ 3,216,227

FOOTNOTES:

The portions of the past service cost of the Pension Plan paid in 1944 and 1943 have not been deducted in determining the above provisions for Federal income taxes ($14,969,263 and $11,865,527, respectively); these payments and the reductions ($940,146 and $890,665, respectively) in Federal excess profits tax resulting therefrom are reflected in the reserve for estimated net past service cost of Pension Plan.

The Company has filed, or will file, applications for the reduction of Federal excess profits taxes for the years 1941 through 1944 under the tax relief provisions of Section 722 of the Internal Revenue Code. No effect has been given thereto in the accompanying financial statements since the outcome of the applications cannot be determined at this time.

Provisions for depreciation of buildings and equipment and amortization of leaseholds, included in cost of sales and operating expenses, amounted to $2,360,857 in 1944 and $2,506,451 in 1943.

BALANCE SHEETS—

ASSETS

	1944	1943
Current Assets:		
Cash	$ 10,182,931	$ 7,318,294
U. S. Government securities, at cost—		
Tax savings notes	16,300,000	12,000,000
Short-term Treasury obligations	2,258,913	3,407,453
Receivables from customers and others, less reserves	12,398,788	11,717,019
Merchandise inventories, priced at the lower of cost or market	15,477,685	16,565,368
Total Current Assets	$ 56,618,317	$ 51,008,134
Prepaid Insurance, Supply Inventories, Etc.	$ 1,267,768	$ 1,350,861
Postwar Refund of Excess Profits Tax	$ 1,148,607	$ 518,548

Fixed Assets:

Classification	Cost	Reserves for Depreciation and Amortization		
Retail and manufacturing properties, etc.—				
Land	$16,240,212	$ —	$ 16,240,212	$ 16,246,249
Leaseholds	725,847	122,245	603,602	611,246
Buildings and building equipment	21,907,483	12,243,765	9,663,718	10,305,815
Equipment	11,451,025	6,139,800	5,311,225	5,532,735
Merchandise Mart—				
Air rights and land	2,907,462	—	2,907,462	2,907,462
Building and equipment	28,367,000	9,934,769	18,432,231	19,240,369
Total Fixed Assets	$81,599,029	$28,440,579	$ 53,158,450	$ 54,843,876
Goodwill, Trade-Marks, Etc.			$ 1	$ 1
			$112,193,143	$107,721,420

DECEMBER 31, 1944 and 1943

LIABILITIES

	1944	1943
CURRENT LIABILITIES:		
Accounts payable	$ 5,350,799	$ 4,926,306
Accruals—		
Federal income and excess profits taxes	17,053,443	13,465,273
Local and miscellaneous taxes	3,686,228	3,477,164
Other accruals	2,484,102	2,440,568
Current sinking fund requirements and serial bond maturities (including at December 31, 1944, an optional payment of $500,000 paid on January 24, 1945)	1,400,000	1,400,000
TOTAL CURRENT LIABILITIES	$ 29,974,572	$ 25,709,311
FUNDED DEBT:		
First Mortgage Serial Bonds—		
Series Three, 3%, maturing $250,000 semi-annually from May 1, 1945 to November 1, 1962, inclusive; $200,000 on May 1 and November 1, 1963; and $1,100,000 on May 1, 1964; less $500,000 included in current liabilities. (At December 31, 1943, Series One and Series Two were outstanding, maturing from May 1, 1944 to May 1, 1955)	$ 10,000,000	$ 10,500,000
First Mortgage Sinking Fund Bonds—		
Series A, 3.6%, semi-annual sinking fund payments of $200,000 required from January 31, 1945 to July 31, 1963, inclusive; remainder due February 1, 1964; less $900,000 included in current liabilities. (At December 31, 1943, sinking fund payments were required from February 1, 1944 to February 1, 1959)	9,900,000	11,200,000
	$ 19,900,000	$ 21,700,000
RESERVES:		
For possible future decline in market value of inventories, and other contingencies	$ 6,000,000	$ 5,000,000
For estimated net past service cost of Pension Plan	4,631,639	4,791,079
	$ 10,631,639	$ 9,791,079
CAPITAL STOCK AND SURPLUS (SEE FOOTNOTE):		
Preferred Shares—		
6% Cumulative Preferred Shares, of $100 par value; redeemable at $110 per share and accrued dividends; convertible until January 1, 1947 at the rate of 3.2608 Common Shares for each preferred share—		
Authorized and outstanding 95,508 shares	$ 9,550,800	$ 9,550,800
6% Cumulative Preferred Shares, Second Series, of $100 par value; redeemable at $105 per share and accrued dividends; convertible until January 1, 1952 at the rate of 3½ Common Shares for each preferred share—		
Authorized and outstanding 54,492 shares	5,449,200	5,449,200
	$ 15,000,000	$ 15,000,000
Common Shares—		
Authorized 4,000,000 shares of no par value, of which 502,154 shares are reserved for conversion of preferred shares; and of which 180,000 shares may be sold to officers or employes without first offering such shares to the shareholders—		
Issued and outstanding 1,943,763 shares at stated value	16,818,815	16,818,815
Paid-in surplus	10,167,279	10,167,279
Earned surplus	9,700,838	8,534,936
	$ 51,686,932	$ 50,521,030
	$112,193,143	$107,721,420

FOOTNOTE:

The Company proposes to amend its Articles of Incorporation in 1945 to authorize a new class of 300,000 preferred shares with a par value of $100 per share. The initial series is to consist of 150,000 shares to be offered, on a share for share basis, to the holders of the outstanding preferred shares. The outstanding preferred shares not so exchanged are to be redeemed from the proceeds of the sale of the new preferred shares not issued pursuant to the exchange offer. Under the provisions of the proposed amended Articles of Incorporation, cash dividends on, or the purchase of, common shares may be made only if remaining earned surplus shall exceed $6,000,000, and if remaining net current assets shall exceed $125 for each outstanding preferred share.

Statement of Surplus and Reserves

For the Year Ended December 31, 1944

Earned Surplus

Balance at December 31, 1943		$ 8,534,936
Net Profit for the Year, less provision of $1,000,000 for possible future decline in market value of inventories, and other contingencies		4,009,665
		$12,544,601
Deduct:		
Cash dividends declared on—		
6%Cumulative Preferred Shares ($6.00 per share)	$ 573,048	
6% Cumulative Preferred Shares, Second Series ($6.00 per share)	326,952	
Common Shares ($1.00 per share)	1,943,763	2,843,763
Balance at December 31, 1944		$ 9,700,838

Paid-In Surplus

Balance at December 31, 1943 and 1944	$10,167,279

Reserve for Possible Future Decline in Market Value of Inventories, and Other Contingencies

Balance at December 31, 1943	$ 5,000,000
Appropriated from net profit for 1944	1,000,000
Balance at December 31, 1944	$ 6,000,000

Reserve for Estimated Net Past Service Cost of Pension Plan

Balance at December 31, 1943	$ 4,791,079
Deduct:	
Portion of past service cost paid in 1944 ($1,099,586), less reduction in Federal excess profits tax ($940,146) resulting therefrom	159,440
Balance at December 31, 1944	$ 4,631,639